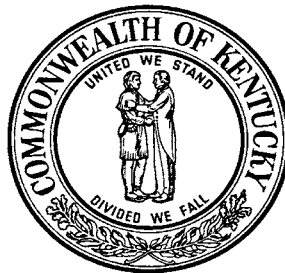


**REPORT OF THE AUDIT OF THE  
FORMER MCLEAN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER MCLEAN COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**January 5, 2003**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for former McLean County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$1,989,569 for the districts for 2002 taxes, retaining commissions of \$76,830 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,912,860 to the districts for 2002 Taxes. Taxes of \$3 are due to the districts from the former Sheriff and refunds of \$124 are due to the former Sheriff from the taxing districts.

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.



<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT .....	1
SHERIFF’S SETTLEMENT - 2002 TAXES .....	3
NOTES TO FINANCIAL STATEMENTS .....	5
COMMENT AND RECOMMENDATION .....	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Larry Whittaker, McLean County Judge/Executive  
Honorable Judy Stratton, Former McLean County Sheriff  
Honorable Frank Cox, McLean County Sheriff  
Members of the McLean County Fiscal Court

Independent Auditor's Report

We have audited the former McLean County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former McLean County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former McLean County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Larry Whittaker, McLean County Judge/Executive

Honorable Judy Stratton, Former McLean County Sheriff

Honorable Frank Cox, McLean County Sheriff

Members of the McLean County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -

March 28, 2003



MCLEAN COUNTY  
JUDY STRATTON, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 302,108	\$ 198,208	\$ 1,110,452	\$ 367,429
Tangible Personal Property	27,028	13,383	88,929	65,896
Intangible Personal Property				10,741
Fire Protection	510			
Franchise Corporation	35,612	18,577	119,508	
Additional Billings	7	4	22	67
Unmined Coal - 2002 Taxes	464	297	1,707	565
Omitted Unmined Coal - 2002 Taxes	28	18	104	34
Oil and Gas Property Taxes	2,540	1,625	9,338	3,090
Penalties	2	1	7	2
Adjusted to Sheriff's Receipt	222	171	795	(88)
Gross Chargeable to Sheriff	<u>\$ 368,521</u>	<u>\$ 232,284</u>	<u>\$ 1,330,862</u>	<u>\$ 447,736</u>
<u>Credits</u>				
Exonerations	\$ 738	\$ 561	\$ 2,710	\$ 916
Discounts	4,717	3,017	17,110	6,443
Transferred to Incoming Sheriff	<u>56,837</u>	<u>35,180</u>	<u>204,140</u>	<u>57,465</u>
Total Credits	<u>\$ 62,292</u>	<u>\$ 38,758</u>	<u>\$ 223,960</u>	<u>\$ 64,824</u>
Taxes Collected	\$ 306,229	\$ 193,526	\$ 1,106,902	\$ 382,912
Less: Commissions *	<u>13,302</u>	<u>8,225</u>	<u>38,742</u>	<u>16,561</u>
Taxes Due	\$ 292,927	\$ 185,301	\$ 1,068,160	\$ 366,351
Taxes Paid	<u>292,949</u>	<u>185,303</u>	<u>1,068,231</u>	<u>366,377</u>
Due District or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (22)</u>	<u>\$ (2)</u>	<u>\$ (71)</u>	<u>\$ (26)</u>

\* And \*\* See Page 4

The accompanying notes are an integral part of the financial statement.

MCLEAN COUNTY  
JUDY STRATTON, FORMER COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES  
January 5, 2003  
(Continued)

10% on	\$	10,000
4.25% on	\$	872,668
3.5% on	\$	1,106,901

\*\* Special Taxing Districts:

Health District	\$	3
Extension District		(3)
Soil Conservation		<u>(2)</u>
Due District or (Refunds Due Sheriff)	\$	<u><u>(2)</u></u>

The accompanying notes are an integral part of the financial statement.

MCLEAN COUNTY  
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

MCLEAN COUNTY  
NOTES TO FINANCIAL STATEMENTS  
January 5, 2003  
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 29, 2002 through December 31, 2002.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2002. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 21, 2002 through December 31, 2002. The former Sheriff turned over all unpaid unmined coal tax bills to the incoming Sheriff for collection on January 5, 2003.

Note 4. Interest Income

The former McLean County Sheriff earned \$321 as interest income on 2002 taxes. As of March 28, 2003, the former Sheriff owed \$99 in interest to the school district and \$83 in interest to the fee account.

COMMENT AND RECOMMENDATION



MCLEAN COUNTY  
JUDY STRATTON, FORMER COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

January 5, 2003

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties which we consider to be both a reportable condition and a material weakness. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. The Sheriff could have implemented compensating controls to offset this internal control weakness.

*Sheriff's Response:*

*None.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

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Honorable Frank Cox, McLean County Sheriff  
Members of the McLean County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former McLean County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated March 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former McLean County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former McLean County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation section.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
March 28, 2003

